

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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<b>In The Matter Of The Application</b>	<b>:</b>	<b>Docket No. 05-035-54</b>
<b>Of MidAmerican Energy Holding</b>	<b>:</b>	<b>Testimony In Support Of the</b>
<b>Company and PacifiCorp dba Utah</b>	<b>:</b>	<b>Acquisition Stipulation</b>
<b>Power &amp; Light Company for an</b>	<b>:</b>	<b>Cheryl Murray</b>
<b>Order Authorizing Proposed</b>	<b>:</b>	<b>For the Committee of</b>
<b>Transaction</b>	<b>:</b>	<b>Consumer Services</b>

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**2 December 2005**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND CURRENT**  
2 **POSITION.**

3 A. My name is Cheryl Murray. My business address is 160 East 300 South  
4 Salt Lake City, Utah. I am a utility analyst for the Committee of Consumer  
5 Services (“Committee”).  
6

7 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS**  
8 **COMMISSION?**

9 A. Yes. I have testified regarding PacifiCorp’s (“Company”) requests for  
10 certificates of convenience and necessity for the Gadsby Plant Addition  
11 (Docket No. 02-035-34), the Currant Creek Power Project (Docket No. 03-  
12 035-39), and the Lake Side Power Project (Docket No. 04-035-30), and in  
13 PacifiCorp’s request for a tariff rider for Demand Side Management  
14 (Docket No. 02-035-T12). I have also testified in Questar Gas Company’s  
15 application for an increase in rates and charges (Docket No. 02-057-02).  
16

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18 A. My testimony addresses certain acquisition commitments made by  
19 MidAmerican Energy Holding Company (“MEHC”) and PacifiCorp  
20 (together the “Applicants”) which, in the Committee’s view, provide  
21 benefits to the PacifiCorp customers that we represent.  
22

23 **Q. WHAT ARE THOSE COMMITMENTS?**

24 A. Those commitments are in the areas of transmission investment, coal  
25 generation technology, pension funding and the “Most Favored Nation”  
26 provision. MEHC has indicated that the “chief benefit from the proposed  
27 transaction is MEHC’s willingness and ability to deploy capital to meeting  
28 PacifiCorp’s significant infrastructure needs.”<sup>1</sup> The Committee agrees that

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<sup>1</sup> Joint Application, page 19.

infrastructure investment will provide considerable benefits for Utah customers.

**Q. PLEASE DESCRIBE MEHC'S AND PACIFICORP'S COMMITMENTS REGARDING TRANSMISSION INVESTMENT.**

A. MEHC has identified three transmission projects that it states will enhance reliability, facilitate the delivery of renewable resources, or enable system optimization. With several caveats such as permitting, availability of materials, equipment and rights-of-way, MEHC and PacifiCorp have committed to use their best efforts to construct those three identified improvements to the transmission system infrastructure.

**Q. WHAT ARE THE THREE TRANSMISSION IMPROVEMENTS THAT HAVE BEEN IDENTIFIED?**

A. The transmission improvements include: the Path C Upgrade; Mona to Oquirrh; and Walla Walla to Yakima or to Mid-C.

**Q. PLEASE DESCRIBE EACH TRANSMISSION IMPROVEMENT AND THE EXPECTED BENEFITS TO BE DERIVED.**

A. Commitment Number 34 describes three specific transmission projects that MEHC proposes to undertake if the application for acquisition is approved.

1. Path C Upgrade. This transmission upgrade from South East Idaho to Northern Utah would increase Path C capacity by 300 MW. The project is expected to cost ~\$78 million and be completed by 2010.

Expected benefits of this project include: enhanced system reliability through increased transfer capability between the east and west control areas; ability to accept power delivery from wind projects in Idaho; and the potential to add other generation capacity options.

2. Mona to Oquirrh. This new transmission line would increase import capability into the Wasatch Front from resources delivered at or to Mona. It would also provide an option to import power from

Southern California. The projected cost is ~\$196 million with a completion date in 2011.

MEHC contends that the anticipated benefits of this project are: enhanced reliability due to the ability to import power from Southern California; facilitation of adding renewable resources; and enhanced ability to purchase or exchange seasonal resources thereby increasing optimization of the system.

3. Walla Walla to Yakima or to Mid-C. The selected project will either establish a new link or reinforce an existing link. The ability to accept output from wind generators should be enhanced by either project. Anticipated cost is ~\$88 million with a completion date of 2010.

**Q. ARE THERE OTHER TRANSMISSION PROJECTS THAT HAVE BEEN IDENTIFIED BY THE APPLICANTS?**

- A. Yes. Commitment Number 35 identifies Other Transmission and Distribution Matters. A reliable electric system is of vital importance to ratepayers both from a business perspective and in their personal lives. ScottishPower had made commitments and was taking steps to improve the distribution system in Utah thereby increasing reliability. The Commitments made by MEHC will continue, and improve upon, plans already in place.

**Q. WHAT IS THE COMMITTEE'S OPINION REGARDING TRANSMISSION INVESTMENT?**

- A. The Committee views MEHC's commitments to transmission investment as a benefit for PacifiCorp's customers. The Committee's comments regarding PacifiCorp's Integrated Resource Plan ("IRP") 2003 (Docket No. 03-2035-01) stated, "The Committee does not believe the Company adequately evaluated transmission alternatives in its portfolio development. The Committee has three immediate areas of concern: incremental transmission additions were not modeled; wheeling revenues to offset the expense of the addition of major new lines were not modeled;

99 and alternative generation resources as part of the *East-West*  
100 *Transmission* Portfolio were not modeled.”<sup>2</sup> The Committee recommended  
101 that transmission options should be evaluated in a similar manner to  
102 generation resources.

103  
104 In its comments regarding PacifiCorp’s IRP 2004 the Committee reiterated  
105 concerns regarding the Company’s evaluation of transmission. “In its last  
106 IRP Order, the Commission directed the Company to ‘evaluate  
107 transmission alternatives on a consistent and comparable basis with  
108 generation alternatives, include analysis of transmission upgrades and  
109 improve transmission analysis especially with respect to the RTO West  
110 paradigm.’ While the Committee appreciates the improvement PacifiCorp  
111 made by including transmission to integrate distant resources, the  
112 Committee does not believe the Company has adequately or fully  
113 responded to the Commission’s directive.”<sup>3</sup>

114  
115 The Committee has clearly and vocally made known that it views  
116 transmission investment as a viable option to be considered equally with  
117 additional generation resources. Therefore, the Committee views MEHC’s  
118 commitments to increase transmission investment as providing a benefit  
119 for customers.

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121 **Q. DOES THE COMMITTEE AGREE THAT THE THREE TRANSMISSION**  
122 **PROJECTS IDENTIFIED IN THE COMMITMENTS ARE APPROPRIATE**  
123 **AND PRUDENT INVESTMENTS?**

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<sup>2</sup> Recommendations of the Committee of Consumer Services regarding the Matter of Acknowledgement of PacifiCorp’s Integrated Resource Plan 2003; Docket No. 03-2035-01, page 20.

<sup>3</sup> Recommendations of the Committee of Consumer Services regarding the Matter of Acknowledgement of PacifiCorp’s Integrated Resource Plan 2004; Docket No. 05-2035-01, page 20.

A. Certain of the projects appear to facilitate the addition of coal and wind resources to the system, which in the Committee's view are positive aspects. However, the Committee questions the desirability of importing from Southern California gas-fired generation. Furthermore, consultants for the Committee have only been able to review limited available documents dealing with the selected projects. MEHC has said that "...it is possible upon further review a particular investment might not be cost-effective, optimal for customers or able to be completed by the target date. If that should occur, MEHC pledges to propose an alternative to the Commission with a comparable benefit." In the course of the technical conferences and settlement negotiations the Committee and other parties made clear to the applicants that agreeing to the terms of the stipulation did not constitute agreement that these were the appropriate projects or give preauthorization of the transmission investment or other expenses resulting from the list of commitments. Item 14 of the stipulation makes clear that there is no prejudgment as to the prudence, just and reasonable character, rate or ratemaking impact or treatment, or public interest pertaining to any Commitment. Commitment U22 reiterates Utah parties' concerns in this regard.

**Q. WHAT IS THE COMMITTEE'S VIEW REGARDING COAL-FIRED GENERATION?**

A. As in the case of transmission investment, the Committee has utilized the IRP process to express its views that coal-fired generation is a cost-effective resource that in the current environment provides more value to customers than gas-fired generation. Increasing use of natural gas to produce electricity adds a layer of competition for a resource that Utah customers rely on heavily for home heating and operating industrial and commercial facilities. This competition puts upward pressure on prices for

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both the production of electricity and home heating. Committee comments in IRP 2004 included the belief that the Company had not identified a least-cost, least-risk portfolio because the Preferred Portfolio was weighted too heavily with gas-fired resources. The Committee encouraged the Company to evaluate alternative technologies such as Integrated Gasification Combined Cycle (“IGCC”) in conjunction with wind resources.

**Q. HOW DO THE COMMITMENTS IN THIS DOCKET ADDRESS THE COMMITTEE’S CONCERNS WITH COAL-FIRED GENERATION?**

A. Commitment 41 assures that the applicants will consider advanced coal-technologies such as super-critical or IGCC technology when coal-fueled generation is the selected resource. Commitments U15 and U16 also address the IGCC issue. U15 calls for the formation of a working group to examine various policy and technological aspects associated with IGCC technology. U16 commits to study the viability of an IGCC option to be a potential resource alternative in the RFP process in Docket 05-035-47. Additionally, for the 2014 resource identified in PacifiCorp’s October 2005 IRP Update, PacifiCorp will provide the necessary studies to be able to include a self-build IGCC unit option in any RFPs for the 2014 and later non-renewable resource needs. However, Commitment U16 is dependent upon parties supporting recovery of PacifiCorp’s prudently incurred costs associated with the studies and engineering work required to determine the cost and feasibility of an IGCC resource in the identified timeframe.

**Q. DOES THE COMMITTEE HAVE OTHER ISSUES REGARDING RESOURCE ACQUISITION?**

A. In its IRP 2003 comments, the Committee expressed concern that management’s desire to minimize shareholder’s capital exposure may be affecting the modeling and reducing the build requirement, thereby increasing customers’ costs. In Commitment 39 regarding Future

184           Generation Options, MEHC commits that a utility own/operate resource  
185           will be included in any Commission approved RFP for 100 MW or more.  
186           Whether or not this option is selected as the best resource for customers  
187           the Committee is encouraged that capital expenditures seem to be less of  
188           a concern under MEHC ownership than under ScottishPower and this  
189           option will provide a benchmark against which other proposals can be  
190           evaluated.

191

192   **Q.    WHAT IS THE “MOST FAVORED NATION” PROVISION OF THE**  
193   **STIPULATION.**

194   A.    The “Most Favored Nation” provision gives any party to this docket the  
195           opportunity to request adoption of any condition in any other state either  
196           imposed on or agreed to by the Applicants.

197

198   **Q.    DO YOU ANTICIPATE THAT OTHER STATES WILL HAVE UNIQUE**  
199   **CONDITIONS THAT MAY BE DIFFERENT FROM THOSE IN UTAH?**

200   A.    Yes. Each state in PacifiCorp’s territory will likely have its own issues with  
201           the acquisition based on the views and needs of the particular state.  
202           Therefore, the value of the Consolidated List of Commitments to each  
203           state, and stakeholder within the state, will likely be viewed differently.  
204           Each state is on a different schedule for completion of the acquisition with  
205           Utah being the first. The “Most Favored Nation” provision offers  
206           protections and benefits to Utah customers.

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208   **Q.    PLEASE EXPLAIN HOW THE “MOST FAVORED NATION” PROVISION**  
209   **WORKS.**

210   A.    If the Applicants agree to or are required to accept conditions in other  
211           jurisdictions, the Commission has the opportunity and authority to adopt  
212           those commitments in Utah, even if an order has already been issued in  
213           this docket. Parties have agreed to the following process for facilitating  
214           implementation of those types of Commitments.



- Within five calendar days after a stipulation with new or amended commitments is filed by the Applicants with a commission in another state jurisdiction, the Applicants will send a copy to the Parties.
- Within five calendar days after a commission in another state jurisdiction issues an order accepting a stipulation to which the Applicants are a party or imposes new or modified commitments or conditions, that order with all commitments and conditions, will be filed with the Commission and served on all parties to this docket.
- Within ten calendar days after the last filing from the other states, any party to this docket can file with the Commission its position as to whether any of the covenants, commitments and conditions from the other jurisdictions should be adopted in Utah.
- Within five calendar days after such filing, any party to the docket may file a reply with the Commission.

Section 10 of the Stipulation fully explains the “Most Favored Nation” Provision.

**Q. PLEASE BRIEFLY DESCRIBE THE COMMITTEE’S CONCERN WITH PACIFICORP’S PENSION FUND.**

A. In the course of investigating the proposed acquisition we found that PacifiCorp has one of the most under-funded pension plans in the electric utility industry. All things being equal, higher funding status equates to lower net periodic pension cost (NPPC) under FAS 87. PacifiCorp’s 2005 Actuarial Report described its planned funding policy which if followed would bring the plan closer to being fully funded over a period of five years. Although PacifiCorp documents indicated its intent to continue that level of funding there was no requirement and those plans were subject to change. MEHC has committed to continue this funding policy for two years following the close of the transaction.

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247 **Q. ARE THERE OTHER ISSUES YOU WOULD LIKE TO ADDRESS THAT**  
248 **THE COMMITTEE REVIEWED IN THIS DOCKET?**

249 A. Yes. The Committee is endorsing the acquisition because we believe that  
250 considered as a whole it will provide benefits to customers as addressed  
251 above and in Mr. Gimble's testimony. However, that does not mean we  
252 view every commitment MEHC has made as a benefit to Utah ratepayers.  
253 Some of the commitments merely continue PacifiCorp's current practice.  
254 For example, based on discovery responses and research, we judged  
255 PacifiCorp's current IRP public input process and its DSM advisory group  
256 superior to similar processes in Iowa. However, we are confident that  
257 under the Utah commitments to continue the collaboration in IRP and  
258 DSM, the acquisition will not have a detrimental effect on those processes.

259

260 Another issue is corporate overhead charges. MEHC has committed that  
261 for a period of five years its corporate overhead charges will not exceed  
262 \$9 million (total Company) annually. They point to this as a benefit of the  
263 acquisition because ScottishPower's FY2006 charges are projected at \$15  
264 million (total Company). While this appears to provide a \$6 million benefit  
265 it should be noted that it is unlikely that the full \$15 million would be  
266 allowed in rates. Full recovery of the \$9 million is also not guaranteed  
267 since in a general rate case parties are free to argue for recovery of a  
268 lesser amount if they find the \$9 million is not justified.

269

270 Insurance costs are an area where customers may have benefited more  
271 under ScottishPower ownership. Insurance costs potentially could rise  
272 under MEHC's ownership due to the loss of the use of the captive  
273 insurance company in Ireland. As part of their audit in the last PacifiCorp  
274 general rate case, our consultants reviewed the Oregon documents in  
275 which PacifiCorp requested approval to secure insurance coverage from  
276 an affiliated interest (captive insurance company), Docket No. UI 233.

While it appeared that there would be savings under this scheme, their judgment was that the projected savings were overstated with no concrete evidence of those savings provided. However, because there are so many unknowns regarding a future insurance plan we are unable to quantify any potential cost difference at this time. As with corporate overhead charges, this issue will be determined in a future rate case. That being said, Condition Number 22 is a guarantee that the customers of PacifiCorp will be held harmless if the transaction between MEHC and PacifiCorp results in a higher revenue requirement than if the transaction had not occurred.

**Q. IS THE COMMITTEE SATISFIED THAT THE ACQUISITION WILL PROVIDE POSITIVE BENEFITS TO UTAH CUSTOMERS?**

A. Yes, the Committee believes that with the commitments made by MEHC and PacifiCorp the acquisition will provide a positive benefit to Utah customers.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes.